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# Central Intelligence Bulletin

State Department review completed

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February 7, 1974

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026100100001-0

Approved For Release 2004/07/08 : CIA-RDP79T00975A026100100001-0

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EUROPEAN COMMUNITIES: The position paper approved by the EC Council on February 5 will allow the Communities to participate with a measure of flexibility in the Washington energy conference of consumer nations next week, despite basic reservations about the conference and continued differences among the EC members.

The principal points of the paper, which was released to the press in order to strengthen the EC's bargaining position, are:

- the need to avoid a confrontation between consuming and producing countries;
- the desirability of including all categories of consuming nations, particularly the developing states, as well as the producers, in the international discussions, and starting these before April 1; and
- the necessity of preventing the Washington conference--"especially in its present composition"--from being transformed into a permanent organization.

Although EC representatives have made it clear--in discussions with US officials in Brussels--that the EC is going to be sticky on these points, they have also stressed its willingness to discuss fully every item on the conference agenda.

The EC's professed flexibility was probably intended in part to take the edge off the rebuff to some US positions implicit in the paper. It also is evidence of the lack of agreement among the Nine about what should be discussed in Washington, and may reflect uncertainty over how forthcoming the US will be on sharing financial and energy-supply responsibilities.

The US initiative for the conference has not had much effect in discouraging bilateral deals between individual EC members and individual Arab

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producers. Arguments are being heard more frequently-- in Bonn, for example--that bilateral agreements do not damage the US and carry little danger of leading to ruthless competition among the Europeans. The Brussels mandate commits the Communities to retain the members' "complete freedom" on bilateral agreements.

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The scheduling of the conference has helped to delay the EC, for a short time at least, from taking a final position on how it intends to proceed in working out a new relationship with the Arab world. Some members, the French in particular, are counting on an announcement by the EC foreign ministers, after their meeting on February 14, that the Nine are ready to begin talks with the Arabs on economic cooperation.

In Washington the EC will be forthcoming on certain topics, such as cooperation in developing alternative energy resources. Although it clearly believes that such cooperation should take place in existing organizations like the OECD, the EC has not ruled out the establishment of "short-term working groups" to examine what the possibilities for cooperation may be.

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USSR-CUBA: Brezhnev's week-long visit to Cuba did not result in any dramatic breakthroughs or major new agreements, but it brought Cuba more firmly into the Soviet orbit.

Brezhnev's round of activity resembled his triumphal tours of loyal East European countries. The same tone was evident in the final declaration, in which the two leaders expressed "complete identity of views with regard to the present world situation." The declaration's references to increasing the effectiveness of bilateral economic cooperation, wider contacts between Soviet and Cuban personnel, and integration of the Cuban economy into CEMA suggest that the Soviets intend to keep a close eye on the Cuban economy. There was no mention of future military assistance, but Brezhnev probably agreed to consider Cuban requests for more modern weaponry.

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Despite rumors that the Soviets would press Castro to improve relations with the US, no change was signaled in the statements of the two leaders. Nevertheless, Castro's remarks on detente, including praise of Brezhnev's personal efforts toward this goal, are his warmest to date. Castro seems to have been satisfied that Cuba's interests will not be compromised in Moscow's bilateral dealings with the US. He must certainly have been pleased to get the statement of support in the declaration for terminating both the "blockade" of Cuba and the US presence at the Guantanamo naval base.

Neither side criticized China by name, but Castro implicitly criticized Peking and endorsed Moscow's Asian security proposal, moving Cuba closer than ever to the Soviet viewpoint. While the declaration endorsed international Communist unity, there was no mention of a world Communist conference, nor was there any hint that a rumored meeting of Latin American Communist leaders took place in Cuba during Brezhnev's visit.

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OECD: The Organization for Economic Cooperation and Development has revised downward its already bleak world economic forecast for 1974. The sharpest adjustment is in the forecast for the UK--from no growth to an anticipated decline in output of 2.4 percent in 1974. Sharp declines in real growth are also anticipated for Japan and West Germany.

The revised forecast indicates that the rate of inflation will accelerate in all countries except Italy. Foreign trade prospects are poor except in Canada, with deficits on current accounts ranging from an expected \$1 billion in West Germany to \$8 billion in the UK.

The current-account deficit for the seven major industrial countries of the OECD is expected to increase from less than \$1 billion in 1973 to nearly \$30 billion in 1974.

Vastly higher oil prices are responsible for most of the deterioration in the trade accounts, but are less to blame for sagging growth and soaring inflation. The lack of oil will probably not hamper output to an appreciable extent.

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CHINA - SOUTH VIETNAM: An exchange of Foreign Ministry statements by Peking and Saigon over the Spratly Islands is keeping tensions high in the South China Sea.

The Chinese are talking much tougher than the South Vietnamese. Peking called the landings by Vietnamese troops on several unoccupied islands a "new military provocation," declaring it will not tolerate such infringement of its territory. Saigon's comment was decidedly defensive, but the Vietnamese have dispatched two more warships to the area, possibly carrying reinforcements.

The war of words was prompted by Saigon's dispatch of a small naval task force to occupy five additional islands in the Spratlys. The force, consisting of four ships carrying more than 100 men, had orders not to land on any of the islands if occupied. Together with the garrison established last fall on Namyt Island, Saigon now has at least 200 soldiers in the Spratlys.

China has no forces in the island grouping and has not patrolled the area. Taiwan and the Philippines, which also claim the Spratlys, have had troops stationed on several atolls for some time. Manila has formally protested the recent "display of force" in the Spratlys.

While a forceful reaction by the Chinese cannot be ruled out, there are no signs of preparation for such action. A military riposte would present complicated diplomatic and logistical problems for Peking. China wants to avoid a clash with Taipei, for this would run the risk of involving the US, and trouble with Manila might seriously disrupt relations with China's neighbors in Southeast Asia.

Militarily, the islands are beyond the range of Chinese Communist fighter cover and at the extreme range of tactical bombers now on Hainan. Peking would also have difficulty maintaining naval forces in the archipelago. [REDACTED]

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VIETNAM: Hanoi's recent campaign to secure wider recognition of the Viet Cong's Provisional Revolutionary Government has been unsuccessful and may have aggravated North Vietnam's relations with European countries and Japan.

After agreeing in September to exchange ambassadors with the British and later approving the diplomat Britain had named, Hanoi in December suddenly asked London to delay the envoy's arrival, even though he was en route. Hanoi claimed that arrangements were not final because London had not recognized the PRG. When the British responded by threatening to downgrade the envoy's title to chargé and publicize the incident, Hanoi relented. The British ambassador arrived on January 23, but Hanoi has not yet accepted his credentials and apparently intends to delay doing so indefinitely.

Dutch and Belgian ambassadors accredited to Hanoi are still cooling their heels in Peking because the North Vietnamese have not allowed them to enter the country. North Vietnamese officials have hinted that if their governments would give a "gesture of recognition" for the PRG, the ambassadors would get their visas.

Last fall Tokyo and Hanoi agreed to open embassies and exchange ambassadors, but in subsequent negotiations the North Vietnamese have put the Japanese off by expressing displeasure over their aid proposals and citing such practical problems as the housing shortage in Hanoi. The North Vietnamese have implied, however, that recognition of the PRG would help get the Japanese into the capital.

So far, everyone appears to be standing firm on the question of recognition--even the French, who were previously reported wavering. A Viet Cong official in Paris recently commented on PRG failure to win French recognition, attributing France's position to concern over its economic interests in South Vietnam. The economic motive almost certainly weighs heavily with others as well, especially the Japanese.

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Hanoi apparently decided last fall to stress political action and diplomacy in pursuing its aims in the South and to forego for the time being heavy military operations. One facet of this policy was an effort to expand diplomatic recognition of the PRG. [REDACTED]

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JAPAN: Foreign Minister Ohira's attempt to line up support within the ruling Liberal Democratic Party for the aviation agreement with Peking has sparked considerable political infighting. Several efforts to reach intraparty accommodation on the issue have failed. A clear majority of the LDP membership in the Diet favors the proposals, but the dissenters represent important political and business interests that cannot be ignored.

The aviation proposals--which Ohira believes will balance Peking's demands and Tokyo's need to minimize damage to relations with Taiwan--are opposed for several reasons. Most active in blocking party acceptance has been Seirankai, a group of young right-wing Diet members acting with the support of old-guard figures such as former prime minister Kishi. A number of other opponents receive financial support from Japanese firms doing business with Taiwan. Still others, like Finance Minister Fukuda and members of his faction, would like to see Ohira--as well as his ally, Prime Minister Tanaka--stumble politically on the issue. Fukuda and Ohira are leading contenders for the prime ministerial succession.

The situation could evolve in one of three ways:

--Current intraparty discussions would proceed until pro-Taiwan elements have had a few weeks to demonstrate sincerity to constituents and sponsors, after which a face-saving accommodation would be arranged.

--The Tanaka leadership might temporize with the opposition for months, a development which would probably be interpreted as a defeat on a key foreign policy issue.

--The party leadership could force the issue before an intraparty consensus is reached; this would risk damage to Ohira's prestige, as well as leave hard feelings within the party.

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The most likely outcome is the first. Although Tanaka has been notably lackadaisical in supporting the issue, he clearly realizes the importance of keeping Ohira in the cabinet. Ohira has committed his prestige to reaching an agreement, and failure to receive party approval could cause him to consider resigning.

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USSR: Recent data obtained from the Soviets cast doubt on their ability to export Tyumen oil to Japan. The Federovskoye oil deposit, in Tyumen Oblast, was ranked by the Soviets in 1972 as the second largest oil field in the USSR, but the field has been sharply downgraded in recent months. During discussions with Japan in 1972, the Soviets claimed this field contained 15 billion barrels of oil and would produce some 800,000 b/d annually. Together with the output from Samotlor, the largest oil field in the country, an annual export of some 40 million tons to Japan might have been feasible. Subsequent exploration of the Federovskoye field proved very disappointing, however, and estimates of its oil reserves and producing potential have been reduced drastically. Recoverable reserves are now estimated at 300 million barrels of oil, and annual production is not expected to exceed 140,000 b/d at peak development.

In view of the sharp reduction in production estimates for the Federovskoye field, construction of a trans-Siberian crude oil pipeline to serve Japan may no longer be an economically attractive project. Oil from the Samotlor field will be needed primarily to supply the European USSR. The alternative development of a number of small oil fields in Siberia would prove very time-consuming and costly.

Development of Sakhalin offshore oil resources with the cooperation of US and Japanese firms would be a more promising way to obtain oil for use in the Soviet Far East and for export to Japan.

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FRANCE: The first squadron of new Mirage F1 multipurpose fighters became operational on January 31 at Reims/Champagne air base. The F1s will be used as all-weather interceptors, replacing obsolescent Vautour fighters. The Mirage F1, the latest aircraft from Avions Marcel Dassault, is an improved version of the Mirage III fighter, the backbone of the French tactical air force for the past ten years. The F1 can fly at a speed of Mach 2.2, has a greater combat radius and ceiling, and has better maneuverability than the Mirage III.

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GRENADA: The Caribbean island of Grenada received its independence from Great Britain at one minute after midnight this morning. The economy has been paralyzed and the island isolated for some five weeks by a general strike, which flared into violence two weeks ago when groups opposed to independence under Premier Eric Gairy tried to unseat him. Although the situation has calmed, the opposition is planning further violence.

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